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Via ECFS

June 28, 2017

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 Twelfth Street, SW, Room TW-A325  
Washington, DC 20554

Re: MB Docket No. 14-50, MB Docket No. 09-182, MB Docket No. 07-294, MB Docket No. 04-256

Dear Ladies and Gentlemen:

On behalf of Gray Television, Inc. ("Gray"), we hereby submit this notice of *ex parte* presentations made on June 26, 2017, to Matthew Berry, Chief of Staff and Alison Nemeth, Media Advisor to Chairman Pai and on June 28, 2017, to Commissioner Michael O'Rielly and his Chief of Staff Robin Colwell by Gray Chief Legal and Development Officer Kevin Latek, Gray Deputy General Counsel Robert Folliard, and John Feore and Robert McDowell of Cooley, LLP.

In both meetings, Gray explained the current state of competition for viewers and advertisers among local television stations and numerous other platforms in mid-sized and smaller television stations based on its own experience as the owner of over 100 full-power television stations in 57 markets, from Knoxville, Tennessee (DMA 62) to North Platte, Nebraska (DMA 208). Gray provided the presentation deck attached hereto as Exhibit A to illustrate how the Commission's ownership restrictions for television stations in mid-sized and small markets are inconsistent with economic realities and public necessities.

In both meetings, Gray proposed that the Commission:

1. Eliminate the top-four test and reform the eight voices test of the local television ownership rule for Designated Market Areas (DMAs) 110 through 210 with a standard that allows a single entity to own two local television stations if (i) at least one of the two combining stations has not produced a local newscast in the two years prior to the execution of the relevant transaction documents or (ii) at least three independently owned and operated local news providers would remain in the market after the combination. This proposal is supported by the data provided in Exhibit A

and the further backup material provided in Exhibit B, although Exhibit A does not delineate this specific proposal.

2. Reform the Commission's failing station waiver standard to focus on core revenues and core expenses to return to the original Commission intent of focusing on the health of the actual ad-supported local television operation, as shown in Slide 12 of Exhibit A.
3. Eliminate the need for applicants to re-demonstrate, and for the Media Bureau to review and write a decision reaffirming, the uncompetitive nature of full-power television stations that previously have been designated as "satellite stations," as shown in Slide 13 of Exhibit A and as more fully set forth in the recent FCC filing attached as Exhibit C.

***The Commission Should Reform the 1941 One-to-a-Market Ownership Rule that Still Applies to Mid-sized and Small Markets.***

**Background.** A core mission for the FCC is to ensure that all Americans receive local broadcast service. And broadcasters, unlike other FCC licensees, obtain renewal of their licenses only if they comply with public interest obligations. For reasons that may or may not have made sense at the time, the Commission adopted a one-to-a-market ownership rule for broadcast television in 1941. In 1999, the Commission modestly relaxed that rule allowing an entity to own acquire a second television station in a market if (i) at least one of the stations was not ranked in the top four (the "Top-Four Test") and (ii) at least eight "independent voices" remained after consummation of the transaction (the "Independent Voices Test"). This regulatory relief, however, only benefited television stations operating in the largest television markets because the vast majority of mid-sized and small markets have fewer than eight television stations – let alone eight independent voices. As a result, television stations competing for viewers and advertisers in mid-sized and small markets are still subject to the World War II-era one-to-a-market rule.

Common knowledge, common sense, and all available evidence confirm that successfully operating local television stations in mid-sized and small markets is harder than ever. Nevertheless, the FCC's current local television ownership rule fails to recognize the changes that have occurred in the media and the local media landscape in recent years, let alone over the last twenty years, or the 70 years since the Commission first adopted the one-to-a-market rule that still governs mid-sized and smaller markets. Just a few data points make this fact abundantly clear:

**First**, as detailed by the *Wall Street Journal* recently, the most economically and demographically challenged parts of the country are now rural areas, not urban



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centers.<sup>1</sup> Basic economics makes it harder to pay for local news operations when the local advertising and viewership bases face their own unprecedented economic challenges. In fact, more than one-half of all television markets – DMAs 101 through 210 – collectively account for less than 11 percent of ALL advertising dollars spent across the entire broadcast television industry.<sup>2</sup> Moreover, not only do stations in these sized markets have smaller populations over which to amortize their costs, the advertisers in these markets spend disproportionately less on advertising per retail sales and per capita.<sup>3</sup>

**Second**, a local news operation typically is the largest category of operating expenses for a local television station – especially for those attempting to provide a high quality product in the face of the headwinds described above.

A recent study estimates that the “average” local television station with a local news operation in markets 131-150 spends \$1,460,663 per year on that product.<sup>4</sup> Add in the remaining operating costs (programming, engineering, utilities, sales, personnel, etc.), and it’s easy to see why so few television stations can afford to provide local news outside the largest markets.

**Third**, broadcast television is no longer the only source of live, video news about the world, the country, and the local community. From niche cable news channels to countless internet sites, a plethora of professional and non-professional mobile apps, and now voice-activated Assistants like Amazon’s Alexa, consumers have a myriad of ways to gather news, information, and entertainment that did not exist in 1941 when the FCC adopted the current local television ownership rule for mid-sized and small markets nor in 1999 when the FCC adopted the Top-Four Test and Independent Voices Test for larger markets.

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<sup>1</sup> Janet Adamy & Paul Overberg, *Rural America is the New ‘Inner City,’* Wall St. J. (May 26, 2017), <https://www.wsj.com/articles/rural-america-is-the-new-inner-city-1495817008>; Jennifer Levitz and Valerie Bauerlein, *Rural America is Stranded in the Dial-Up Age*, Wall St. J. (June 15, 2017), <https://www.wsj.com/articles/rural-america-is-stranded-in-the-dial-up-age-1497535841>; Dante Chinni, *Rural Youth Chase Big City Dreams*, Wall St. J. (June 26, 2017), <https://www.wsj.com/articles/rural-youth-chase-big-city-dreams-1498478401>. Articles attached as Exhibit D.

<sup>2</sup> See Exhibit A.

<sup>3</sup> See *id.*

<sup>4</sup> National Association of Broadcasters, *Television Financial Report*, Table 15 (2016).



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Not surprisingly then, viewership of broadcast prime time programming has dropped dramatically between 1970 and 2016.<sup>5</sup> Viewership of local news has declined by than two-thirds over that same period. Today, the measure for success of any television show is a fraction of the measure at which broadcasters would have canceled shows twenty – and even ten – years ago.

***Fourth***, the economics of local television, other than retransmission revenues, are far more challenging today than they were in 1941 – or in 1999. Today, unlike then, local broadcasters especially in mid-sized and small markets are squeezed continually by declining viewership, significant decreases in national advertising business, general inflation, increasing employee and especially health care benefit costs, increasing network programming fees, and increasing pressure on retransmission fees from ever-consolidating mega-companies who now control distribution through MVPD and over-the-top systems.

***In summary***, the confluence of these undeniable economic, demographic, and societal changes has produced a clear picture of just how many local, independently produced television news operations can be supported in mid-sized and small markets. As of today, the average number of such news operations is as follows:

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<sup>5</sup> See Exhibit A.



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DMA Rank	Average TV Households	DC-Area County With Similar Number of TV Households	Average Independently Produced, In-DMA TV Newscasts <sup>6</sup>
86-110	310,040	Montgomery County, MD	3.00
111-135	224,960	Prince Georges County, MD	2.48
136-160	153,560	Prince William County, VA (Manassas)	2.36
161-185	101,120	Howard County, MD (Ellicott City)	1.68
186-210	47,480	Charles County, MD (Waldorf)	1.20

While the laws of economics dictate how many independent television news operations can exist given a market's size, the FCC's 1941 one-to-a-market rule for mid-sized and small markets continues to assume that every market can support four or more independent stations and many more independent "voices." Mid-sized and small markets, however, have as many TV Households as a single suburban county outside of Washington, DC. Yet, the Commission's 1941 one-to-a-market rule assumes that a single suburban county can support as many news sources as the entire Washington, DC DMA. The FCC's rule is anachronistic in the extreme, and it no longer bears any relation to reality in mid-sized and small markets.

### ***Proposed Reform of the Local Television One-To-A-Market Rule.***

It is well past time for the FCC to abandon the World War II-era rule in favor of a new standard that helps to preserve the local broadcast service outside the largest

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<sup>6</sup> As shown in Exhibit B, Gray conducted an exhaustive review of commercial television stations in 125 smallest DMAs (#86-210) to determine the number of independently produced local newscasts in each market. If a station's newscast was produced by another television station in the same market or produced outside of a station's market with minimal local presence, the newscast did not qualify as an independent, locally produced newscast.

markets. To that end, Gray submits that the Commission should eliminate the Top-Four Test and reform the Independent Voices Test of the local television ownership rule for DMAs 110 through 210 with a standard that removes restrictions on the combination of two local television stations if (i) at least one of the two combining stations has not produced a local newscast in the two years prior to the execution of the relevant transaction documents or (ii) at least three independently owned and operated local news providers (two of which must be independently owned and operated television stations) would remain in the market after the combination.<sup>7</sup>

***Eliminate the Top-Four Test.*** The Top-Four Test may or may not serve a purpose in the largest television markets. It is, however, a complete ban on economically necessary consolidation in mid-sized and small markets. In fact, fully 79 of the 100 smallest DMAs have four or fewer commercial full-power television stations.<sup>8</sup>

Stated differently, the Top-Four Test effectively precludes relief for television broadcasters in almost *eighty percent of the smallest television markets* because every station in these markets – no matter how weak or noncompetitive – is ranked in the top four. These, of course, are the very markets characterized by the new economic and demographic challenges facing rural America that the *Wall Street Journal* detailed. The FCC, therefore, should eliminate the top-four station ban entirely, at least in the DMAs 110 through 210.

***Reform the Independent Voices Test.*** The Independent Voices Test also requires reform. The FCC has defended this prong of its ownership rule as necessary to preserve independent perspectives in the video marketplace. Even if such a test made sense in the Fall of 1999, some four years *before* the launch of MySpace and five years *before* the launch of YouTube, it is indefensible today. The federal government simply cannot advance a credible argument that consumers only receive news, information, and entertainment from a small number of local television stations.

Moreover, most local television news operations do not offer a “perspective” or “viewpoint” on the news. National cable channels, magazines, newspapers, websites,

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<sup>7</sup> This two-year look-back provision is a similar mechanism as employed by the Commission’s local radio ownership rules to prevent a licensee from benefitting from a change in a radio market’s boundaries simply to qualify its station for a different ownership test.

<sup>8</sup> See Exhibit B. If a station in the Lansing DMA, which sold its spectrum in the spectrum auction, does not enter into a post-auction channel sharing agreement and goes off the air, the number of markets with four or fewer commercial full-power television stations will rise to 80 out of 100.



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apps and other platforms can and do prosper by covering news and events with a distinct editorial viewpoint. Local news stations, in contrast, must and do work aggressively to remain viewpoint-free. Unlike national platforms, there are not enough consumers of local news in a given market who fit into various political or other viewpoints for a local station to focus narrowly on serving those consumers while ignoring the rest of its market. Quite simply, local stations must zealously provide broad-based, bias-free newscasts to attract and maintain the largest possible audience from among its relatively much smaller potential viewership base.

Nevertheless, if the FCC deems it necessary to maintain the “independent voices” prong of the rule despite the inapplicability of such bias-tests to local television, the FCC must define that term appropriately. One such approach would define “independent voices” as the number of independently owned *local news providers* in the market. “Local news providers” are full-time news-gathering organizations or entities providing local news content that is produced in that market, for that market, and about that market. For example, an “independent voice” under this approach could include a locally published newspaper, digital news outlet, cable system operator, or radio station with a dozen reporters based in the same market as the television stations that cover and produce news content in, for and about that local market. In contrast, a television or radio station or digital news outlet that primarily obtains news content from sources located 1,000 miles away, even if repackaged to “look” like a local production, would not qualify as an “independent voice” because that station is not actually providing a distinct local news perspective to consumers from within its market.

Should the FCC reform its Independent Voices Test to look properly at all local news providers in a market, this prong of the rule for DMAs 110 through 210 should require that post-consolidation, the market would contain at least three “independent voices” or local news providers.

This approach would permit a local news station affiliated with a major network to acquire another station in its market that is not producing local news. Such a result would shore up the finances of the station producing local news content for its market without reducing the number of news outlets available to local consumers. This rule change also would permit consolidation of two television stations in mid-sized and small markets if neither are local news providers. Such a result better ensures that these operations remain viable in the challenging economics of smaller markets, which are far more difficult for stations other than the legacy news-producers in those markets. The combination of non-news producing stations has no impact on viewpoint diversity because, even if one believes that local stations have a viewpoint in their local newscasts, stations without newscasts by definition have no viewpoints. Finally, this approach would allow two independent news producing television stations to combine if a sufficient number of local news providers would remain in the market after the



transaction. Indeed, under this approach in markets where two news-producing stations could combine, viewers in those local markets would still have more independent local news sources than most other small and mid-sized markets.

### ***The Commission Should Reform the Failing Station Waiver Standard.***

The Commission also should reform its failing station waiver standard. When the Commission first adopted this waiver standard in 1999, a television station's cash flow essentially encompassed its core advertising business and episodic political revenue. Since that time, television stations have diversified their service offerings and sources of revenue beyond core advertising revenue – *i.e.*, beyond non-political spot sales to local and national businesses. Today, broadcast stations derive meaningful revenue from non-core sources such as retransmission fees, internet/digital sales, marketing and production services.

Despite this diversification, the true health of a local station's business continues to be analyzed by its core advertising revenue. The other sources of revenue vary widely by station based on many internal and external factors. For example, political advertising revenue is too unpredictable and too dependent on the whims of national events to serve as a reliable source of revenue that stations can reasonably predict to receive in any particular year. A station losing money in its core business often is suffering a cold that quickly could turn into a much more serious ailment. A one-time shot in the arm from political revenue from an unexpectedly competitive Senate or governor's race does not alter the fundamental financial health of a television station. The Commission should not offer the lifeline of a failing station waiver only when a station's entire cash flow has run negative for three years – at which time its core likely has been negative for a much longer period of time. Stations with three years of negative total cash flow are also much more difficult to turn around and preserve.

Consequently, the FCC should reform its failing station waiver standard to return to the original focus on the health of a station's core advertising business. In particular, the financial showing required to justify a failing station waiver should be limited to an analysis of the station's core broadcast business, that is, its broadcast cash flow over two years excluding net retransmission revenues and net political revenue.

Once the failing station waiver is properly reoriented to focus on a station's core revenue, the second prong of the failing station test requiring that a station have less than a 4.0 share should no longer be relevant. If a station's core business is not profitable, it is failing regardless of what its share of television viewing may be.<sup>9</sup>

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<sup>9</sup> Gray does not propose any changes to the other prongs of the failing station waiver. Applicants should still be required to demonstrate that the combination will produce





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***The Commission Should Reform Its Satellite Station Policy.***

On Monday, June 26, Gray filed a letter in MB Docket No. 17-105, Modernization of Media Regulation Initiative, in which Gray urged the Commission to eliminate the need for applicants to re-demonstrate, and for the Media Bureau to review and write a decision reaffirming, the uncompetitive nature of full-power television stations that previously have been designated as “satellite stations.” The presentation regarding this proposal is set forth fully in that filing, which is attached here as Exhibit C.

***Conclusion***

These reforms are critical. It is beyond dispute that the inability of local newspapers to maintain and increase their financial viability over the past 15 years has led to a dramatic reduction in the number of local news-gathering organizations all across the country. The same fate awaits another significant local news-gathering organization – the local broadcast television station – should the FCC not move quickly to reform its local television ownership rule in ways that preserve the ability to provide local news in the first place.

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public interest benefits and that the current owner of the failing station could not sell the station to an out-of-market buyer except at an artificially reduced price.



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Gray respectfully submits that reforming the local ownership rule for mid-sized and small market television stations as set forth in this letter and its attachments deserve the Commission's full consideration because these reforms would further the Commission's mandate to ensure that the broadcast television service can continue to serve all local communities, including those with fewer residents and fewer advertisers.

Very truly yours,

A handwritten signature in blue ink, reading "Robert M. McDowell", is written over a horizontal line.

Robert M. McDowell  
John R. Feore  
Counsel to Gray Television, Inc.

Enclosures

cc: Commissioner Michael O'Rielly  
Matthew Berry  
Robin Colwell  
Alison Nemeth



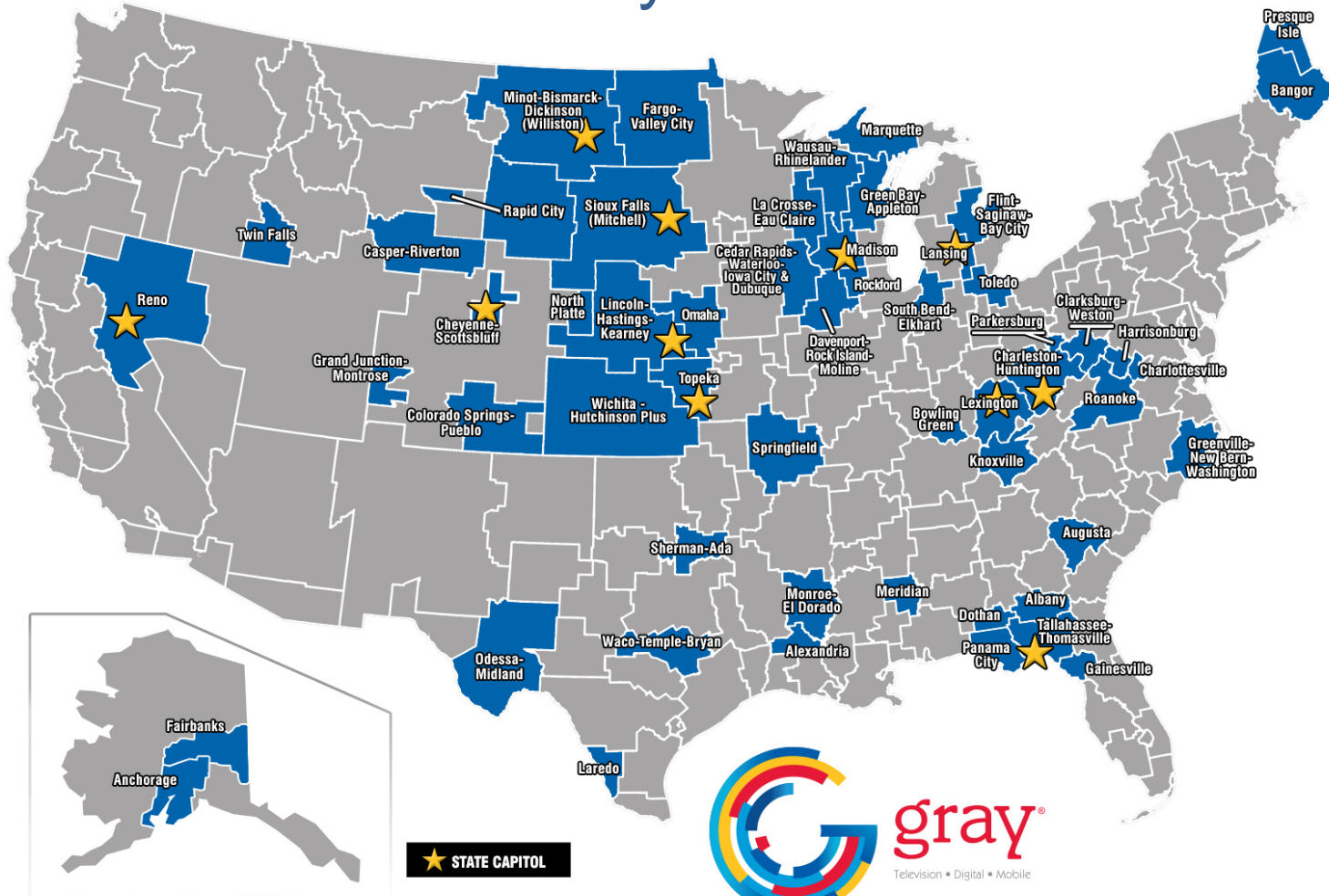
Exhibit A



# Ownership Relief for Small and Mid-Sized Markets

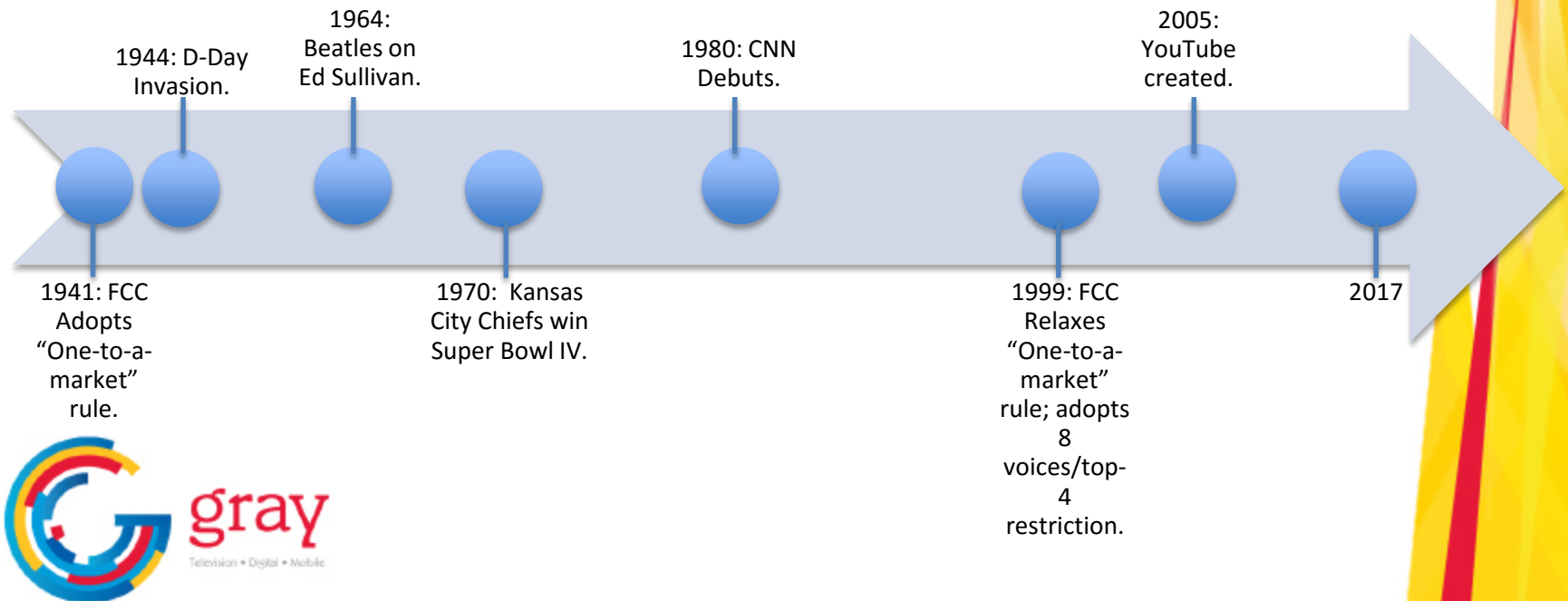


# Gray Operates Strong News Producing Stations in Small and Mid-Sized Markets Across the Country.



# Local Television Ownership Rules Have Not Changed Significantly in Small and Mid-Sized Markets Since Before World War II

- The TV “one-to-a-market” rule first adopted in 1941 continues to prevent any consolidation in the vast majority of small markets.





# The FCC's 1999 Relaxation of the “One-to-a-Market” Rule Had Little Impact in Small to Mid-Sized Markets.

- **79 of the 100** smallest DMAs have 4 or fewer full-power, commercial TV stations.
  - Meaning, no matter how weak, all stations are ranked in the Top 4 and consolidation is not possible.
- DMAs smaller than #50 rarely have 8 full power television stations – let alone 8 independent “voices.”
- FCC rules prevent small markets from enjoying the same efficiencies from consolidation as large markets





# Operating a TV Station in a Small to Mid-Sized Market is More Challenging than Ever.

- Small, rural markets are the most economically and demographically challenged parts of the country.
  - Significantly depressing local advertising revenue.

## RURAL AMERICA IS THE NEW 'INNER CITY'

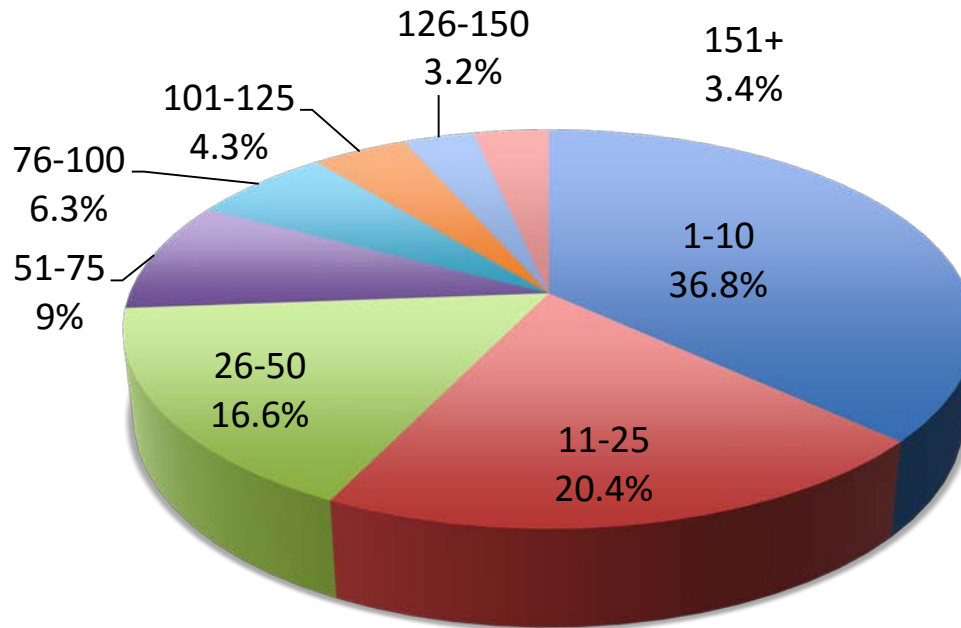
A Wall Street Journal analysis shows that since the 1990s, sparsely populated counties have replaced large cities as America's most troubled areas by key measures of socioeconomic well-being—a decline that's accelerating

*By Janet Adamy and Paul Overberg*



# Small Markets Have More Challenging Economics than Large Markets.

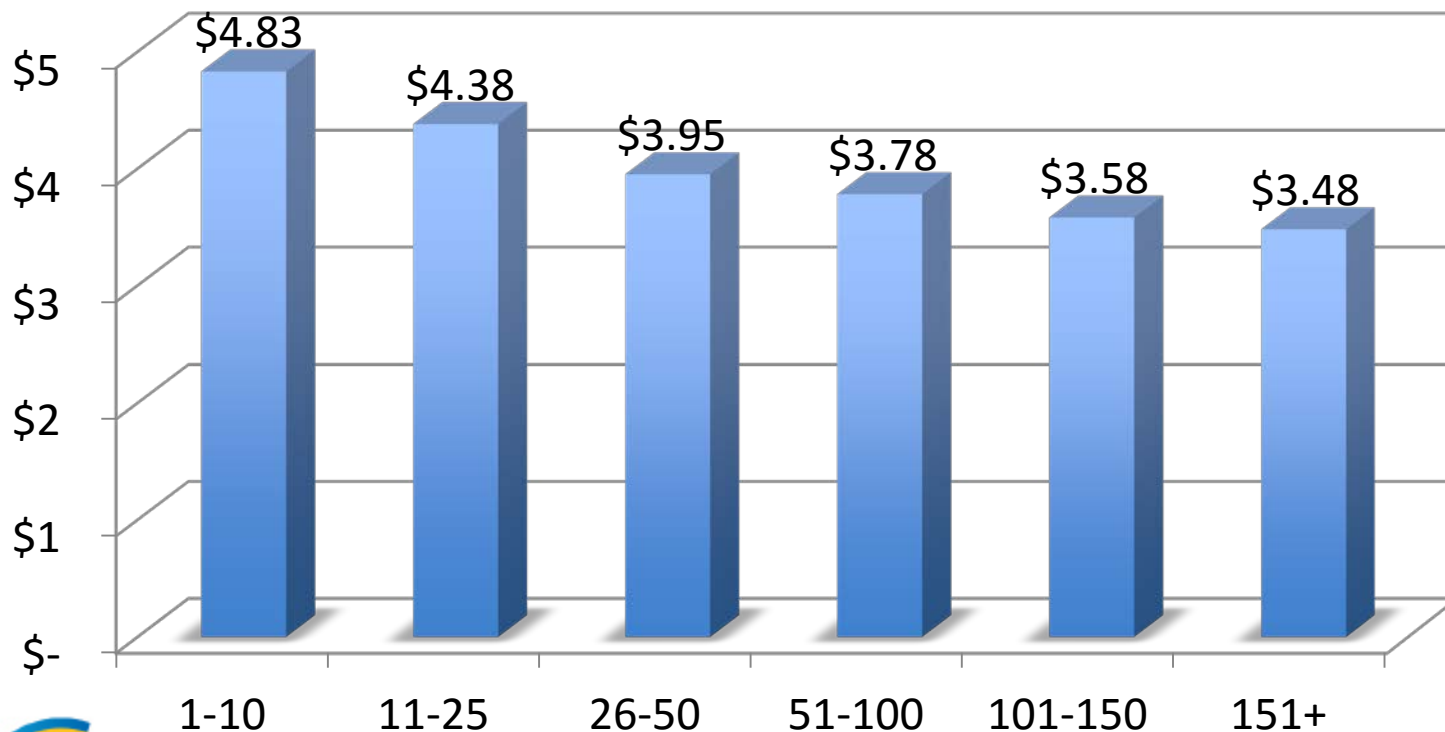
**Distribution of 2016 Over-the-Air Advertising Revenue by Market Size**



Source: BIA-Kelsey, Investing in Television  
Market Report 2017

# Advertisers Spend Disproportionately Less in Small Markets.

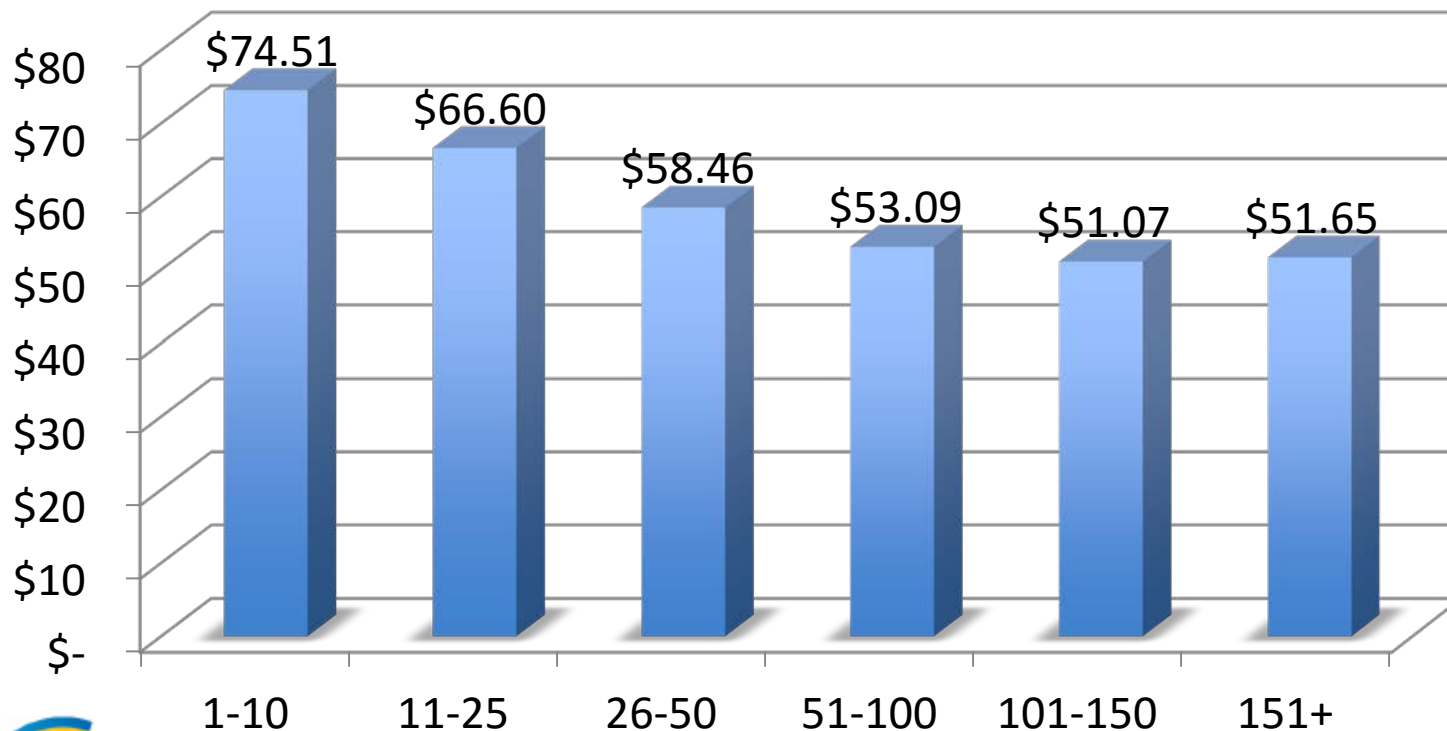
## 2016 TV Advertising Revenue/Retail Sales (\$/1,000)



Source: BIA-Kelsey, Investing in Television  
Market Report 2017

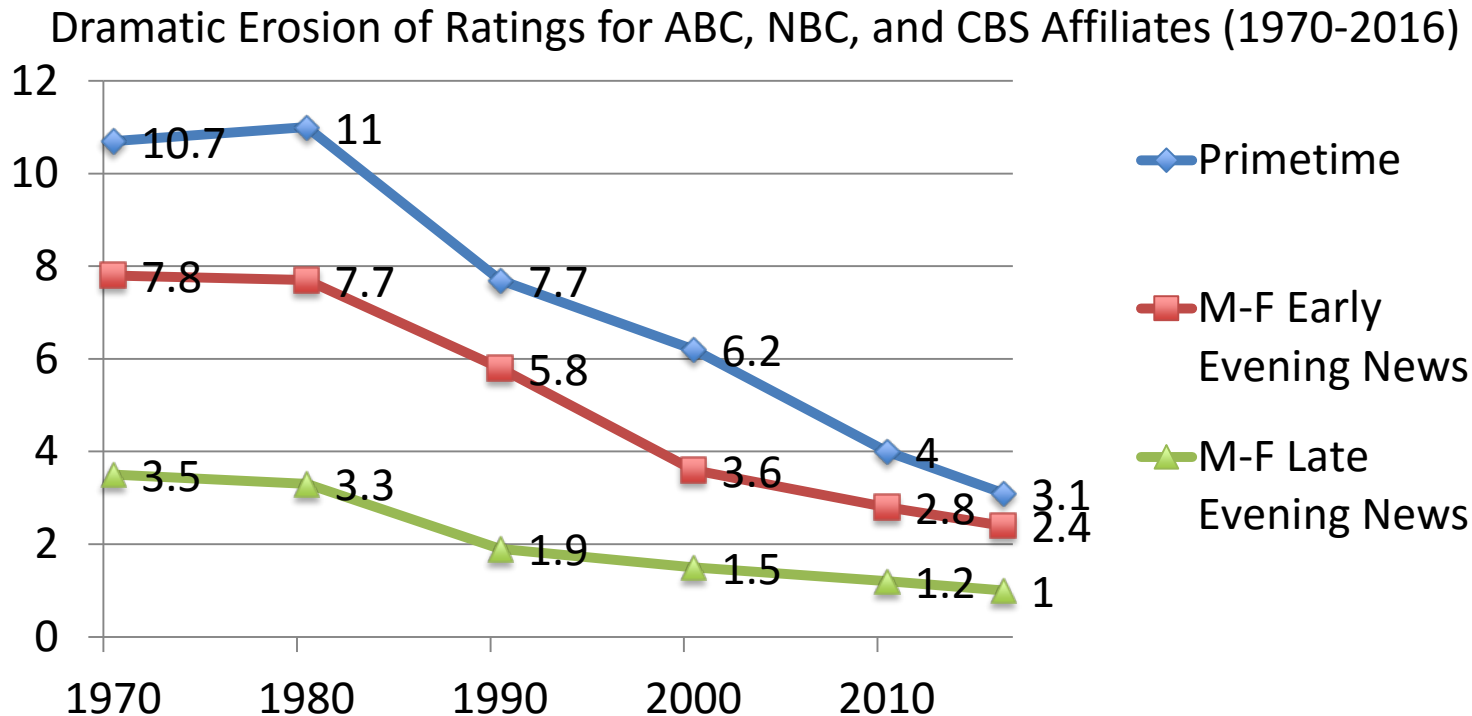
# Small Markets Earn Less Revenue Per Person Than Large Markets.

## 2016 TV Advertising Revenue Per Capita



Source: BIA-Kelsey, Investing in Television  
Market Report 2017

# Ratings Have Declined Substantially Since Ownership Rules Were Relaxed For Large Markets in 1999.



Source: Media Dynamics, Inc.



# Small and Mid-Sized Markets Cannot Support 4 Independent TV News Sources

DMA Rank	Average TV Households	Comparable DC-Area County	Average Independently Produced, In-DMA TV Newscasts
86-110	310,040	Montgomery County, MD	3.00
111-135	224,960	Prince Georges County, MD	2.48
136-160	153,560	Prince William County, VA (Manassas)	2.36
161-185	101,120	Howard County, MD (Ellicott City)	1.68
186-210	47,480	Charles County, MD (Waldorf)	1.20



# The FCC Must Update Its Ownership Rules To Reflect Actual Marketplace Realities.

- FCC Ownership Rules Should Not Insist on One-Size-Fits-All Rules Requiring Each Market Have 4 Independently Owned Local News Sources. Basic Economics Makes This Impossible In Small Markets.
- **Both** the 8 Voices Test **and** Top 4 Restriction Must Be Replaced Because They Serve As an Absolute Ban on Consolidation in Small Markets.
- Ownership Rules Should Not Require More Than a Market Can Actually Support.
  - DMAs 85-110 cannot support more than 3 independent TV news sources.
  - DMAs 111-160 cannot support more than 2 independent TV news sources.
  - DMAs 161-210 cannot support more than 1 independent TV news source.





# Reform the Failing Station Waiver Test

- Failing Station Waivers Should Focus on Whether a Station is Unprofitable for 3 Years Based on its “Core Advertising Revenue” – Not Cash Flow.
  - Core revenue solely looks only at advertising revenue, but excludes political advertising
    - Political advertising is too volatile and unpredictable to serve as a reliable barometer of a station’s health
  - Core revenue profitability is the industry’s accepted measure for whether a station is viable.
  - The current test (Cash Flow Negative for 3 Years) only allows for a station to be rescued if it is near death.
- A station’s share is not relevant to whether a station is failing.
  - TV share is becoming increasingly meaningless as television



# Eliminate the Requirement to Renew Satellite Waivers with Each Transaction.

- Preparing and Reviewing Satellite Waivers Is a Waste of Private and Public Resources.
  - The FCC has not denied a single request to renew a satellite waiver since the current waiver standard went into effect in 1991.
- Applicants Should Be Permitted to Certify that Circumstances Have Not Materially Changed Since the Last Waiver and Attach a Copy of the Most Recent Satellite Waiver Decision for the Station.
- The 30 Day Public Comment Period Can Serve as a Safety Valve in the Incredibly Unlikely Event That Circumstances Have Dramatically Improved in a Formerly Underserved Area to Warrant Denying a Satellite Waiver.





Exhibit B

DMA Rank	DMA	# of Full Power Commercial TV Stations	Population*	TV Households*	BIA Ad (\$) 2015/2016 Average*	Commercial Independent TV News Sources
86	<b>Champaign-Springfield-Decatur, IL</b>	6	982,300	362,000	42,000,000	3
87	Waco-Temple-Bryan, TX	4	1,042,600	360,000	46,500,000	3
88	<b>Colorado Springs-Pueblo, CO</b>	5	973,000	355,000	56,500,000	4
89	<b>Chattanooga, TN</b>	6	972,100	350,000	43,500,000	3
90	<b>Cedar Rapids-Waterloo-Iowa City-Dubuque, IA</b>	7	902,800	341,000	60,500,000	3
91	<b>Savannah, GA</b>	5	954,800	338,000	45,000,000	3
92	<b>El Paso, TX</b>	7	1,094,200	335,000	66,000,000	5
93	Baton Rouge, LA	4	948,500	330,000	64,000,000	3
94	<b>Charleston, SC</b>	5	881,600	321,000	54,000,000	3
95	<b>Jackson, MS</b>	6	930,900	315,000	49,500,000	3
96	South Bend-Elkhart, IN	4	902,400	313,000	38,500,000	3
97	<b>Burlington, VT-Plattsburgh, NY</b>	5	866,500	311,000	29,500,000	3
98	<b>Tri-Cities, TN-VA</b>	5	810,100	310,000	34,000,000	2
99	<b>Ft. Smith-Fayetteville-Springdale-Rogers, AR</b>	6	861,200	308,000	40,000,000	3
100	<b>Greenville-New Bern-Washington, NC</b>	5	831,600	307,000	36,000,000	3
101	<b>Davenport, IA-Rock Island-Moline, IL</b>	6	774,200	303,000	50,500,000	3
102	<b>Myrtle Beach-Florence, SC</b>	5	785,200	295,000	36,500,000	3
103	Evansville, IN	4	747,800	290,000	40,500,000	3
104	<b>Johnstown-Altoona, PA</b>	5	758,400	287,000	29,500,000	2
105	<b>Lincoln-Hastings-Kearney, NE</b>	6	737,900	279,000	33,500,000	3
106	<b>Boise, ID</b>	6	785,000	272,000	37,500,000	3
107	<b>Tallahassee, FL-Thomasville, GA</b>	6	765,500	269,000	28,500,000	2
108	Tyler-Longview, TX	5	768,400	268,000	41,500,000	3
109	<b>Sioux Falls-Mitchell, SD</b>	5	704,200	267,000	31,500,000	3
110	<b>Ft. Wayne, IN</b>	6	731,300	265,000	36,500,000	3
111	Augusta, GA	3	722,400	264,000	30,000,000	3
112	<b>Reno, NV</b>	6	753,700	262,000	54,500,000	3
113	Lansing, MI	5	681,100	254,000	31,500,000	2
114	Springfield-Holyoke, MA	2	703,500	253,000	29,500,000	2
115	Youngstown, OH	3	657,200	252,000	28,000,000	2
116	<b>Fargo-Valley City, ND</b>	5	639,200	246,000	35,000,000	3
117	<b>Eugene, OR</b>	5	625,500	245,000	23,000,000	2
118	<b>Peoria-Bloomington, IL</b>	5	657,800	243,000	28,500,000	2
119	Traverse City-Cadillac, MI	4	623,600	240,000	22,000,000	2
120	Lafayette, LA	4	643,600	234,000	37,500,000	3
121	<b>Macon, GA</b>	5	684,100	233,000	26,500,000	3
122	Yakima-Pasco-Richland-Kennewick, WA	4	717,900	232,000	23,500,000	2
123	<b>Montgomery, AL</b>	8	642,400	230,000	33,000,000	2
124	<b>Santa Barbara-Santa Maria-San Luis Obispo, CA</b>	5	735,600	226,000	30,500,000	3
125	Monterey-Salinas, CA	4	769,800	225,000	22,500,000	3
126	Bakersfield, CA	4	805,200	220,000	36,000,000	3
127	<b>Columbus, GA</b>	5	607,300	217,000	23,000,000	3
128	<b>Corpus Christi, TX</b>	5	604,400	209,000	41,000,000	2
129	La Crosse-Eau Claire, WI	4	573,800	205,000	29,000,000	3
130	Wilmington, NC	3	496,700	198,000	26,500,000	2

DMA Rank	DMA	# of Full Power Commercial TV Stations	Population*	TV Households*	BIA Ad (\$) 2015/2016 Average*	Commercial Independent TV News Sources
<b>131</b>	<b>Amarillo, TX</b>	<b>6</b>	<b>561,900</b>	<b>196,000</b>	<b>25,500,000</b>	3
132	Chico-Redding, CA	4	523,700	193,000	18,500,000	2
133	Columbus-Tupelo-West Point, MS	3	502,800	188,000	26,500,000	2
134	Wausau-Rhineland, WI	4	455,600	182,000	24,000,000	3
135	Topeka, KS	3	476,600	177,000	17,500,000	2
136	Columbus-Jefferson City, MO	4	486,000	176,000	23,500,000	3
<b>137</b>	<b>Monroe, LA-El Dorado, AR</b>	<b>5</b>	<b>482,000</b>	<b>175,000</b>	<b>21,500,000</b>	2
138	Rockford, IL	3	484,300	173,000	24,000,000	3
<b>139</b>	<b>Medford-Klamath Falls, OR</b>	<b>5</b>	<b>442,200</b>	<b>171,000</b>	<b>19,500,000</b>	4
140	Minot-Bismarck-Dickinson, ND	4	409,300	168,000	27,500,000	2
141	Beaumont-Port Arthur, TX	3	468,300	167,000	25,000,000	2
142	Duluth, MN-Superior, WI	5	427,400	165,000	15,500,000	3
<b>143</b>	<b>Odessa-Midland, TX</b>	<b>7</b>	<b>464,300</b>	<b>162,000</b>	<b>27,000,000</b>	3
144	Salisbury, MD	2	432,300	160,000	19,000,000	2
<b>145</b>	<b>Lubbock, TX</b>	<b>6</b>	<b>463,400</b>	<b>159,000</b>	<b>31,000,000</b>	3
146	Palm Springs, CA	2	475,800	157,000	29,000,000	2
<b>147</b>	<b>Anchorage, AK</b>	<b>6</b>	<b>471,700</b>	<b>155,000</b>	<b>29,000,000</b>	3
148	Wichita Falls, TX -Lawton, OK	4	432,700	154,000	22,500,000	2
149	Sioux City, IA	4	411,600	153,000	25,000,000	3
150	Erie, PA	4	409,600	152,000	25,000,000	2
151	Joplin, MO -Pittsburg, KS	4	405,600	150,000	26,000,000	2
152	Albany, GA	4	425,000	148,000	18,000,000	1
153	Rochester, MN -Mason City, IA-Austin, MN	4	376,100	145,000	18,000,000	3
<b>154</b>	<b>Panama City, FL</b>	<b>5</b>	<b>372,200</b>	<b>142,000</b>	<b>16,500,000</b>	2
155	Terre Haute, IN	3	382,900	139,000	15,500,000	2
156	Bangor, ME	3	351,900	138,000	15,500,000	2
157	Biloxi-Gulfport, MS	2	360,800	134,000	28,000,000	2
158	Wheeling, WV -Steubenville, OH	2	320,500	133,000	12,500,000	2
159	Bluefield-Beckley-Oak Hill, WV	4	338,000	132,000	14,000,000	2
160	Binghamton, NY	3	343,600	131,000	16,500,000	2
161	Gainesville, FL	4	336,800	130,000	22,500,000	1
162	Sherman, TX	2	343,900	129,000	11,500,000	2
<b>163</b>	<b>Idaho Falls-Pocatello, ID</b>	<b>5</b>	<b>390,300</b>	<b>128,000</b>	<b>12,000,000</b>	2
164	Missoula, MT	3	302,600	119,000	13,000,000	3
165	Abilene-Sweetwater, TX	5	316,300	118,000	15,000,000	2
166	Billings, MT	4	288,900	117,000	15,500,000	2
<b>167</b>	<b>Yuma, AZ-El Centro, CA</b>	<b>5</b>	<b>392,200</b>	<b>116,000</b>	<b>8,550,000</b>	1
168	Hattiesburg-Laurel, MS	2	305,500	111,000	14,500,000	1
169	Clarksburg-Weston, WV	3	276,000	106,000	18,000,000	2
170	Quincy, IL -Hannibal, MO-Keokuk, IA	3	269,000	102,000	13,500,000	2
171	Utica, NY	3	276,500	101,000	12,000,000	2
172	Rapid City, SD	4	268,100	100,000	12,000,000	2
173	Dothan, AL	3	283,000	99,000	11,000,000	2
174	Lake Charles, LA	2	268,900	98,000	18,500,000	1
175	Elmira, NY	3	248,400	95,000	8,800,000	2

DMA Rank	DMA	# of Full Power Commercial TV Stations	Population*	TV Households*	BIA Ad (\$) 2015/2016 Average*	Commercial Independent TV News Sources
176	Jackson, TN	2	252,000	94,000	8,850,000	1
177	Harrisonburg, VA	1	262,700	93,000	10,000,000	1
178	Watertown, NY	2	261,000	92,000	9,100,000	1
179	Alexandria, LA	4	251,500	90,000	16,000,000	1
180	Marquette, MI	4	214,900	88,000	12,050,000	3
181	Bowling Green, KY	2	221,400	87,000	12,500,000	2
182	Jonesboro, AR	2	215,400	86,000	12,000,000	1
183	Charlottesville, VA	2	211,900	79,000	12,000,000	2
184	Laredo, TX	2	297,400	78,000	19,000,000	2
185	Butte-Bozeman, MT	3	182,400	72,000	8,600,000	1
186	Grand Junction-Montrose, CO	4	195,600	70,000	11,100,000	2
187	Lafayette, IN	1	192,500	69,000	6,550,000	2
188	Bend, OR	2	175,700	68,000	7,800,000	1
189	Lima, OH	2	139,300	67,000	9,500,000	1
190	Meridian, MS	3	186,200	66,000	11,200,000	1
191	Twin Falls, ID	2	193,600	65,000	7,950,000	1
192	Great Falls, MT	3	172,500	64,000	8,200,000	2
193	Greenwood-Greenville, MS	2	189,700	63,000	6,000,000	1
194	Parkersburg, WV	1	155,900	62,000	8,800,000	1
195	Eureka, CA	4	164,300	60,000	4,900,000	1
196	San Angelo, TX	3	153,800	58,000	8,750,000	2
197	Casper-Riverton, WY	4	153,400	57,000	5,650,000	2
198	Cheyenne, WY-Scottsbluff, NE	2	149,800	56,000	6,550,000	1
199	Mankato, MN	1	140,700	47,000	4,800,000	1
200	Ottumwa, IA-Kirksville, MO	2	125,500	46,000	5,800,000	2
201	St. Joseph, MO	2	128,700	45,000	4,950,000	2
202	Fairbanks, AK	3	112,000	37,000	7,750,000	1
203	Victoria, TX	2	92,800	34,000	8,700,000	1
204	Zanesville, OH	1	86,100	33,000	3,700,000	1
205	Helena, MT	1	73,500	30,000	5,050,000	1
206	Presque Isle, ME	1	69,700	28,000	3,550,000	1
207	Juneau, AK	2	76,600	26,000	5,150,000	0
208	Alpena, MI	1	40,000	17,000	1,900,000	1
209	North Platte, NE	1	37,700	15,000	2,600,000	1
210	Glendive, MT	1	10,600	4,000	700,000	0

\* Data from 2017 BIA Investing in Television 1st Edition

1. The number of full-power, commercial television stations in a market does not include satellite stations or other stations that repeat a substantial amount of programming from a parent station.
2. Commercial Independent Television News Sources only include television stations that produce their own local newscasts inside their respective markets. Local news that is primarily produced in a different market or is produced by another in-market station is excluded.
3. Markets with the number of full-power commercial television stations in orange may soon be reduced by one. A station in this market has sold its spectrum in the incentive auction. If the station does not enter into a post-auction channel share, the market will lose one full-power commercial station.



Exhibit C





June 26, 2017

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 Twelfth Street, SW, Room TW-A325  
Washington, DC 20554

Re: Modernization of Media Regulation Initiative  
Public Notice – MB Docket No. 17-105

Dear Ladies and Gentlemen:

Gray Television, Inc. (“Gray”) appreciates the Commission’s initiation of a proceeding to review, modify and repeal media-related regulations that impose unnecessary burdens for little or no benefit and, as such, stand in the way of competition and innovation in the media marketplace.

In the spirit of that proceeding, Gray submits that the Commission can and should act immediately – without waiting for a lengthy rulemaking proceeding – to eliminate wasteful and time-consuming policies related to the transfer and assignment of licenses for demonstrably uncompetitive full-power satellite television stations.

**Specifically, the Commission should direct the Media Bureau today to adopt new Processing Guidelines that eliminate the need for applicants to re-demonstrate, and for the Bureau to review and write a decision reaffirming, the uncompetitive nature of full-power television stations that previously have been designated as “satellite stations.”** Thereafter, whether through this Docket or another Docket, the Commission should codify this common sense reform.

**Background.** In *Television Satellite Stations*, the Commission established an exception to its multiple ownership and main studio rules for television stations that it determines are unable to operate on a stand-alone basis, thereby allowing such stations to be operated by distant “parent stations” that themselves comply with the multiple ownership and main studio rules.<sup>1</sup> In this manner, the Commission has preserved free, over-the-air service to rural communities despite a demonstrated lack of advertising revenues to support ongoing operational costs. Gray owns 15 satellite stations, 12 of which Gray acquired in the past four years.

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<sup>1</sup> *Television Satellite Stations Review of Policies and Rules*, Report and Order, 6 FCC Rcd. 4212, 4215 (1991)(subsequent history omitted). To obtain satellite status, an applicant must demonstrate compliance with a three-part standard or demonstrate otherwise compelling circumstances. The presumptive standard consists of three public interest criteria: (1) there is no City Grade overlap between the parent and the satellite; (2) the proposed satellite would provide service to an underserved area; and (3) no alternative operator is ready and able to construct or to purchase and operate the satellite as a full-service station. *Id.*

Among the many broadcast ownership rules, policies, and processing guidelines are provisions that require certain applicants to submit lengthy, costly, and unnecessary requests to continue satellite station waivers that the Commission previously granted simply because the owners are seeking approval of new ownership or revised control of the station. Renewing these waivers upon every assignment or transfer of a broadcast license serves no rational purpose.

### **Current Policy Creates Zero Benefits While Imposing Wholly Unnecessary Costs**

**First**, the mere sale of a station operating under a satellite waiver does not mean that the underlying conditions warranting the waiver have improved. To the contrary, we are unable to find a single instance in which the Commission found that a sale or transfer revealed new facts warranting revocation of a satellite station waiver.

This result should come as no surprise. The Commission grants satellite waivers only after a thorough investigation of the facts and release of written findings based on specific evidence that the subject station faces local economic conditions that make it impossible for the station to operate independently. Requiring re-authorization of a satellite waiver makes sense only if the Commission assumes that there is a good chance conditions have improved such that the waiver is no longer necessary. There is no basis for this assumption because the local broadcast business faces more, not less, economic challenges today than any prior point in time. Moreover, the rural, sparsely populated areas served by satellite stations face their own unprecedented challenges.<sup>2</sup> Whether the Commission concluded that a particular station could not operate independently one year ago or twenty years ago, it is highly unlikely that local market conditions will have miraculously improved in the intervening time period, and the Commission's policies should reflect that reality.

**Second**, threatening to revoke satellite status upon a sale or transfer creates a substantial disincentive to invest in these struggling stations in rural and economically depressed areas. Public policy should not threaten to punish an owner that has succeeded in investing in these troubled areas and improving a station's economic prospects. Instead, public policy should encourage broadcasters to buy and invest in satellite stations and their local communities for the long-term.

**Third**, it is illogical for the Commission to continue to require applicants to hire brokers, lawyers, engineers and/or economists simply to continue these previously-granted waivers while the Commission freely allows the transfer of stations in identical situations without the cost and time burdens of seeking a new waiver. In particular, the Commission has authorized and granted numerous waivers of the main studio rule for television stations in underserved areas utilizing the exact same standards that warrant satellite waivers,<sup>3</sup> but unlike satellite waivers, main studio waivers are transferrable to future owners. The only difference between stations with a satellite waiver and those with a main studio waiver is that the latter have contours that overlap with their parent stations, while main-studio-waiver stations do not have contour overlap. This is a distinction without a difference. If a station serves an area that cannot support an independently operated television station, it makes no difference to the local community whether the Commission has granted a main studio or a satellite waiver to the station. Yet, in the context of a transaction, an applicant faces costs and delays if the station has a satellite rather than a main studio waiver.

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<sup>2</sup> Janet Adamy & Paul Overberg, *Rural America is the New 'Inner City,'* Wall St. J. (May 26, 2017), <https://www.wsj.com/articles/rural-america-is-the-new-inner-city-1495817008>.

<sup>3</sup> See, e.g., *Shareholders of CBS Corp.*, 15 FCC Rcd 8230, 8244, ¶ 40 (2000) (granting a main studio waiver based on factors that otherwise would justify continued satellite authority under the *ad hoc* test).

*Fourth*, these waiver re-authorization requests impose delays and costs on the applicants, the parties and employees in a transaction, as well as the Commission. A transaction requiring the preparation, review, processing and writing of a decision granting renewal of a satellite waiver will take double or triple the amount of time it takes to obtain approval of sale or transfer of a license absent a waiver. These outdated requirements waste the resources of Commission staff who always have more consequential matters that demand their time and resources. It bears repeating: despite reviewing scores of requests to renew satellite waivers since 1991, this investment of Commission resources has not once led to the denial of a new waiver request for a station that previously obtained a satellite waiver.

In short, the regulations and policies requiring applicants to re-demonstrate, and the Commission to review and write a decision reaffirming, satellite waivers serve no rational purpose, impose unnecessary delays and waste the resources of private parties and the Commission itself.

### **Gray's Proposal to Reform the Flawed Satellite Waiver Policy**

We do not foreclose the (heretofore unseen) possibility that local market conditions that once prevented the independent operation of a television station could radically improve over time, thereby obviating the need for a satellite waiver. For that reason, we propose a new Processing Guideline and subsequent codification of a rule that includes a “safety valve” permitting the public and the Commission to address this potential situation, without subjecting each and every station sale to the costs and delays of a new waiver request.

In particular, we propose that:

1. The Commission adopt a policy that immediately waives<sup>4</sup> any and all provisions requiring issuance of a new waiver to replace a previously granted satellite waiver upon a transfer of control or assignment of license for such a station.
2. Licensees of such stations should be permitted to assign and transfer the licenses freely, that is, without a waiver request and without a written decision granting a new waiver, provided that:
  - (A) the proposed assignor and assignee certify in the relevant assignment and transfer applications that the underlying circumstances that were relied upon by the Commission in granting the current waiver have not changed materially since the issuance of the waiver, and
  - (B) one of the applicants uploads to the assignment or transfer application a complete copy of the written Commission decision granting the current waiver.
3. A grant of satellite status for a station would be specific to the station itself and not a particular parent-satellite combination, thus, giving licensees the flexibility to change

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<sup>4</sup> Immediate relief through the issuance of a blanket waiver via Processing Guidelines is permitted, if not compelled, by the Commission's obligation to regulate, and to waive unnecessary regulations, as necessary to advance the public interest. See *WAIT Radio v. FCC*, 418 F.2d 1153 (D.C. Cir. 1969).

a satellite station's parent without the need to re-demonstrate that the satellite continues to operate in an underserved area.

4. Through this Docket or another Docket, the Commission should codify the Processing Guideline outlined above.

This certification-and-upload approach would provide an opportunity for interested parties to review the most recent satellite waiver decision when reviewing the subject assignment or transfer application. If an interested party disagrees with the applicants' certifications, that individual could object to the application through the normal Public Comment process by bringing to the Commission's attention such facts and circumstances that are believed to warrant the cessation of the subject waiver upon the closing of the proposed transaction. The applicants could respond through the normal pleading cycle. Thereafter, the Commission would be able to analyze the facts and circumstances surrounding the waiver after the development of a complete record. Absent any opposition, however, the Commission should grant the application based on the applicants' certifications.

Moreover, by clarifying that a station's satellite status is not dependent on serving as a satellite to a particular parent station, it will provide licensees with sufficient flexibility to change a satellite's parent station to better serve local market conditions without the need to undergo additional Commission review. After all, if a station serves an underserved area as a satellite, it does not matter what station serves as its parent. Gray has firsthand experience for why this flexibility is so important. In 2016, Gray acquired KNEP-TV, Scottsbluff, Nebraska, and KSGW-TV, Sheridan, Wyoming. At the time, both stations operated as out-of-state satellites to KOTA-TV, Rapid City, South Dakota. Gray has since converted KNEP-TV and KSGW-TV to satellites of KNOP-TV, North Platte, Nebraska, and KCWY-TV, Casper, Wyoming, respectively, bringing in-state news and information for the first time to residents in these underserved areas.<sup>5</sup> By confirming that satellite licensees have the flexibility to change a station's parent without prior Commission approval, licensees will be able to quickly adapt to local market conditions and better serve the public interest.

### **The Commission Should Adopt This Reform TODAY**

We respectfully urge the Commission to revise its Processing Guidelines immediately to narrow its review of satellite station waivers and thereby speed Commission review of transactions. In this manner, the Commission could afford immediate relief to parties and the Commission itself without any negative impact or costs, all while preserving its ability to review any cases that truly warrant its review.

Respectfully submitted,



Kevin P. Latek  
Executive Vice President, Gray Television, Inc.

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<sup>5</sup> Schurz Communications, Inc, *Letter*, 31 FCC Red 1113 (2016). In its decision approving Gray's acquisition of these stations, the Commission recognized the significant public interest benefits accruing from changing the parent stations of these satellites.



Exhibit D

# THE WALL STREET JOURNAL.

## Rural America Is the New 'Inner City'

A Wall Street Journal analysis shows that since the 1990s, sparsely populated counties have replaced large cities as America's most troubled areas by key measures of socioeconomic well-being—a decline that's accelerating

By Janet Adamy and Paul Overberg  
*Updated May 26, 2017*

At the corner where East North Street meets North Cherry Street in the small Ohio town of Kenton, the Immaculate Conception Church keeps a handwritten record of major ceremonies. Over the last decade, according to these sacramental registries, the church has held twice as many funerals as baptisms.

In tiny communities like Kenton, an unprecedented shift is under way. Federal and other data show that in 2013, in the majority of sparsely populated U.S. counties, more people died than were born—the first time that's happened since the dawn of universal birth registration in the 1930s.

For more than a century, rural towns sustained themselves, and often thrived, through a mix of agriculture and light manufacturing. Until recently, programs funded by counties and townships, combined with the charitable efforts of churches and community groups, provided a viable social safety net in lean times.

Starting in the 1980s, the nation's basket cases were its urban areas—where a toxic stew of crime, drugs and suburban flight conspired to make large cities the slowest-growing and most troubled places.

Today, however, a Wall Street Journal analysis shows that by many key measures of socioeconomic well-being, those charts have flipped. In terms of poverty, college attainment, teenage births, divorce, death rates from heart disease and cancer, reliance on federal disability insurance and male labor-force participation, rural counties now rank the worst among the four major U.S. population groupings (the others are big cities, suburbs and medium or small metro areas).

In fact, the total rural population—accounting for births, deaths and migration—has declined for five straight years.

"The gap is opening up and will continue to open up," said Enrico Moretti, a professor of economics at the University of California, Berkeley, who has studied the new urban-rural divide.

Just two decades ago, the onset of new technologies, in particular the internet, promised to boost the fortunes of rural areas by allowing more people to work from anywhere and freeing companies to expand and invest outside metropolitan areas. Those gains never materialized.

As jobs in manufacturing and agriculture continue to vanish, America's heartland faces a larger, more existential crisis. Some economists now believe that a modern nation is richer when economic activity is concentrated in cities.

In Hardin County, where Kenton is the seat, factories that once made cabooses for trains and axles for commercial trucks have shut down. Since 1980, the share of county residents who live in poverty has risen by 45% and median household income adjusted for inflation has fallen by 7%.

At the same time, census figures show, the percentage of adults who are divorced has nearly tripled, outpacing the U.S. average. Opioid abuse is also driving up crime.

Father Dave Young, the 38-year-old Catholic priest at Immaculate Conception, was shocked when a thief stole ornamental candlesticks and a ciborium, spilling communion wafers along the way.

Before coming to this county a decade ago, Father Young had grown up in nearby Columbus—where for many years he didn't feel safe walking the streets. "I always had my guard up," he said.

Since 1980, however, the state capital's population has risen 52%, buoyed by thousands of jobs from J.P. Morgan Chase & Co. and Nationwide Mutual Insurance Co., plus the growth of Ohio State University. Median household income in Columbus is up 6% over the same span, adjusted for inflation. "The economy has grown a lot there," said Father Young. "The downtown, they've really worked on it."

Meanwhile, as Kenton-population 8,200-continues to unravel, he said he has begun always locking the church door. Again, he finds himself looking over his shoulder.

"I just did not expect it here," he said.

In the first half of the 20th century, America's cities grew into booming hubs for heavy manufacturing, expanding at a prodigious clip. By the 1960s, however, cheap land in the suburbs and generous highway and mortgage subsidies provided city dwellers with a ready escape-just as racial tensions prompted many white residents to leave.

Gutted neighborhoods and the loss of jobs and taxpayers contributed to a socioeconomic collapse. From the 1980s into the mid-1990s, the data show, America's big cities had the highest concentration of divorced people and the highest rates of teenage births and deaths from cardiovascular disease and cancer. "The whole narrative was 'the urban crisis,'" said Henry Cisneros, who was Bill Clinton's secretary of housing and urban development.

To address these problems, the Clinton administration pursued aggressive new policies to target urban ills. Public-housing projects were demolished to break up pockets of concentrated poverty that had incubated crime and the crack cocaine epidemic.

At that time, rural America seemed stable by comparison-if not prosperous. Well into the mid-1990s, the nation's smallest counties were home to almost one-third of all net new business establishments, more than twice the share spawned in the largest counties, according to the Economic Innovation Group, a bipartisan public-policy organization. Employers offering private health insurance propped up medical centers that gave rural residents access to reliable care.

By the late 1990s, the shift to a knowledge-based economy began transforming cities into magnets for desirable high-wage jobs. For a new generation of workers raised in suburbs, or arriving from other countries, cities offered diversity and density that bolstered opportunities for work and play. Urban residents who owned their homes saw rapid price appreciation, while many low-wage earners were driven to city fringes.

As crime rates fell, urban developers sought to cater to a new upper-middle class. Hospital systems invested in sophisticated heart-attack and stroke-treatment protocols to make common medical problems less deadly. Campaigns to combat teenage pregnancy favored cities where they could reach more people.

As large cities and suburbs and midsize metros saw an upswing in key measures of quality of life, rural areas struggled to find ways to harness the changing economy.

Starting in the late 1990s, Amazon.com Inc. began opening fulfillment centers in sparsely populated states to help customers avoid sales taxes. One of those centers, established in 1999, brought hundreds of jobs to Coffeyville, Kan.-population 9,500.

Yet as two-day shipping became a priority, Amazon shifted its warehousing strategy to be closer to cities where its customers were concentrated, and shut the Coffeyville center in 2015.

An Amazon spokeswoman said that it didn't make the decision lightly, and that last year it opened one of two planned fulfillment centers near Kansas City that will create more than 2,000 full-time jobs.

Just as Amazon closed down, so did the century-old hospital in nearby Independence, population 8,700.

The nearly one-million-square-foot Coffeyville warehouse Amazon rented has been empty since it went on the market for \$35 million, and was recently repossessed at a value of \$11.4 million after the building owner filed for chapter 11 bankruptcy protection.

Coffeyville officials said the area's problem isn't a lack of jobs-it's a shortage of qualified workers. After Amazon said it would close, economic-development leaders held an employment fair expecting to get up



to 600 job seekers. Fewer than 100 showed up, said Trisha Purdon, executive director of the Montgomery County Action Council.

In the late 1990s, convinced that technology would allow companies to shift back-office jobs to small towns, former Utah Republican Gov. Mike Leavitt pitched outposts in his state to potential employers. But companies were turned off by the idea of having to visit and maintain offices in such locations, he said. Eventually, many of the call centers he landed moved overseas where labor was even cheaper.

Although federal and state antipoverty programs were not limited to urban areas, they often failed to address the realities of the rural poor. The 1996 welfare overhaul put more city dwellers back to work, for example, but didn't take into account the lack of public transportation and child care that made it difficult for people in small towns to hold down jobs, said Lisa Pruitt, a professor at the University of California, Davis School of Law.

Rhonda Vannoster of Independence, Kan., who is 25, has four children with a fifth on the way. She is divorced and jobless and doesn't own a car, which limits her work options. She said she wants to get trained as a nursing aide but struggles to make time for it. "There just aren't a lot of good jobs," she said.

There has long been a wage gap between workers in urban and rural areas, but the recession of 2007-09 caused it to widen. In densely populated labor markets (with more than one million workers), Prof. Moretti found that the average wage is now one-third higher than in less-populated places that have 250,000 or fewer workers—a difference 50% larger than it was in the 1970s.

As employers left small towns, many of the most ambitious young residents packed up and left, too. In 1980, the median age of people in small towns and big cities almost matched. Today, the median age in small towns is about 41 years—five years above the median in big cities. A third of adults in urban areas hold a college degree, almost twice the share in rural counties, census figures show.

Consolidation has shut down many rural hospitals, which have struggled from a shortage of patients with employer-sponsored insurance. At least 79 rural hospitals have closed since 2010, according to the University of North Carolina at Chapel Hill.

Rural residents say irregular care and long drives for treatment left them sicker, a shift made worse by high rates of rural obesity and smoking. "Once you have a cancer diagnosis...your probability of survival is much lower in rural areas," said Gopal K. Singh, a senior federal health agency research analyst who has studied mortality differences.

The opioid epidemic—and a lack of access to treatment—have compounded the damage. In Hardin County, prosecutor Brad Bailey said drug cases, which accounted for less than 20% of his criminal cases a decade ago, have surged to 80%.

The epidemic is spawning more thefts, including a rash of snatched air-conditioners sold for scrap metal, said Dennis Musser, police chief in Kenton. Linda Martell, a 69-year-old who moved to Kenton from outside Cleveland a decade ago to be near her daughter, was surprised a chain saw and heavy tools were stolen from her garage.

When she was a young adult, she recalled, "All the problems were in the big cities."

In November's presidential election, rural districts voted overwhelmingly for Donald Trump, who pledged to revive forgotten towns by scaling back regulations, trade agreements and illegal immigration and encouraging manufacturing companies to hire more American workers. A promised \$1 trillion infrastructure bill could give a boost to many rural communities.

Lawmakers from both parties concede they overlooked escalating small-town problems for years. "When you have a state like Florida, you campaign in the urban areas," said former Florida Republican Sen. Mel Martinez. He recalls being surprised when he learned in the mid-2000s that rural areas, not cities, were the center of an emerging methamphetamine epidemic.

During the Bush administration, lawmakers were preoccupied with two wars, securing the homeland after the Sept. 11 terrorist attacks and rebuilding New Orleans after Hurricane Katrina. Barack Obama's administration tried to lift rural areas by pushing expanded broadband access, but found that service providers were reluctant to enter sparsely populated towns, said former Agriculture Secretary Tom Vilsack.

Since the collapse of the housing market, real-estate appreciation in nonmetropolitan areas has lagged behind cities, eroding the primary source of wealth and savings for many families.

"We didn't really have much of a transformation strategy for places where the world was changing," Mr. Vilsack said.

Meanwhile, major cities once considered socioeconomic laggards have turned themselves around. In St. Louis, which has more than 30 nearby four-year schools, the percentage of residents with college degrees tripled between 1980 and 2015-creating a talent pool that has lured health care, finance and bioscience employers, officials say. Instead of people moving where the jobs are, "jobs follow people," said Greg Laposa, a local chamber of commerce vice president.

In many cities, falling crime has attracted more middle- and upper-class families while an influx of millennials delaying marriage has helped keep divorce rates low.

Maria Nelson, a 45-year-old media company manager who came to Washington, D.C., to work after college, had always assumed she would someday move to the suburbs, where she had grown up. A generation of heavy federal spending helped make the nation's capital one of the country's highest-earning urban centers. Its median household income rose to \$71,000 a year in 2015, a 51% increase since 1980, adjusted for inflation.

While Ms. Nelson was able to buy a brick row house in 2002, she said she worries about younger colleagues-let alone anyone moving in from a small town-who face soaring real-estate prices. "The whole area just seems to be out of range for most people now," she said

In Kenton, Father Young said that despite their mounting troubles, he is optimistic about his parishioners. Some of them tell him they worry about what will happen when they die because they still provide for their adult children.

He likes to say there is always hope. "They can find a job," he said. "Columbus is close enough."

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# THE WALL STREET JOURNAL.

## Rural America Is Stranded in the Dial-Up Age

High costs and lack of access to broadband service prevent residents of far-flung communities from joining the modern economy

By Jennifer Levitz and Valerie Bauerlein

*Updated June 15, 2017*

CALEDONIA, Mo.-Jeanne Wilson Johnson raises sheep and angora goats, and to sell the wool and mohair online she drives 4 miles to the parking lot of Roy's gas station, the closest spot for decent internet access.

At her 420-acre farm, Ms. Johnson pays \$170 a month for a satellite internet service too slow to upload photos, much less conduct business.

As in many rural communities, broadband here lags behind in both speed and available connections. Federal data shows only a fraction of Washington County's 25,000 residents, including Ms. Johnson, have internet service fast enough to stream videos or access the cloud, activities that residents 80 miles away in St. Louis take for granted.

"We don't feel like we're worth it," said Ms. Johnson, 60 years old.

Delivering up-to-date broadband service to distant reaches of the U.S. would cost hundreds of billions of dollars, experts estimate, an expense government, industry and consumers haven't been willing to pay.

In many rural communities, where available broadband speed and capacity barely surpass old-fashioned dial-up connections, residents sacrifice not only their online pastimes but also chances at a better living. In a generation, the travails of small-town America have overtaken the ills of the city, and this technology disconnect is both a cause and a symptom.

Counties without modern internet connections can't attract new firms, and their isolation discourages the enterprises they have: ranchers who want to buy and sell cattle in online auctions or farmers who could use the internet to monitor crops. Reliance on broadband includes any business that uses high-speed data transmission, spanning banks to insurance firms to factories.

Rural counties with more households connected to broadband had higher incomes and lower unemployment than those with fewer, according to a 2015 study by university researchers in Oklahoma, Mississippi and Texas who compared rural counties before and after getting high-speed internet service.

"Having access to broadband is simply keeping up," said Sharon Strover, a University of Texas professor who studies rural communication. "Not having it means sinking."

Many rural schools have a fraction of internet speeds common at most American campuses. "Sometimes it feels like they get more education, and they get more prepared for their futures than we do," said David Bardol, a 13-year-old sporting a crew cut and Star Wars T-shirt. He attends Kingston Junior High in Caddo, Mo., one of the communities in Washington County.

At the county's 911 center, dispatch director William Goad sometimes loses his connection to the state emergency system. That means dispatchers can't check license plates for police or relay arrest-warrant information.

As severe thunderstorms approached in late February, Mr. Goad tried to keep watch using an internet connection sputtering at speeds too slow to reliably map a tornado touchdown or track weather patterns.

"We drill for oil above the Arctic Circle in some of the worst conditions known to man," Mr. Goad said.

"Surely we can drop broadband across the rural areas in the Midwest."

About 39% of the U.S. rural population, or 23 million people, lack access to broadband internet service—defined as "fast" by the Federal Communications Commission—compared with 4% of the urban residents.

Fast service, according to the FCC, means a minimum download speed of 25 megabits per second, a measure of bandwidth known as Mbps. That speed can support email, web surfing, video streaming and graphics for more than one device at once. It is faster than old dial-up connections—typically, less than 1 Mbps—but slower than the 100 Mbps service common in cities.

In St. Louis, speeds as fast as 100 Mbps start at about \$45 a month, according to BroadbandNow, a data research company. Statewide, an estimated 61% of rural residents lack broadband access.

Expanding rural broadband is a priority of FCC Chairman Ajit Pai, who grew up in Parsons, Kan., population 9,900. "If you don't have a digital connection, you are less likely to be able to succeed," he said.

At a weekly gathering of wool producers at a 1930s-era Craftsman-style bungalow, Ms. Johnson and others snacked on local goat cheese and deer sausage. They talked about internet sites for buying and selling raw mohair, mohair locks and mohair yarn—of which they have a bounty.

But with limited internet service, Virginia LaChance, who keeps sheep and spins wool, said, "We're not in competition with them. That's the problem."

#### Costly connections

Rural America can't seem to afford broadband: Too few customers are spread over too great a distance. The gold standard is fiber-optic service, but rural internet providers say they can't invest in door-to-door connections with such a limited number of subscribers.

St. Louis has more than 5,000 people per square mile compared with 33 in Washington County, according to U.S. Census figures.

Fiber-optic trunk lines already make up much of the U.S. internet backbone. The trouble is reaching individual rural customers. It costs roughly \$30,000 a mile to install optical fiber cable, according to industry estimates, to trench and secure right-of-way access.

Most rural communities rely on existing telephone technology that transmits data over copper lines. Even with upgrades, those lines can't deliver data at speeds common to fiber-optic networks.

Smartphone service is available but has coverage gaps and isn't always reliable in rural communities such as Washington County. Even when it works, cell service can't match the speed or capacity of broadband. "You just can't compete," said Brian Whitacre, an agricultural economics professor at Oklahoma State University. "Running a business with a smartphone is not going to happen."

Alternative internet technologies—satellite dish or fixed wireless, which uses cellular networks to beam data short distances using antennas and transmitters—struggle to handle video streaming or other high-data uses. Those services also typically cap the amount of data used each month.

The 25-bed Washington County Memorial Hospital, which has service of 10 Mbps, loses internet connections often enough that ambulance drivers are told to divert critical patients, whose CT scans are transmitted to specialists, to a hospital 40 minutes away, said Michele Meyer, the county's interim chief executive.

The city clerk in Irondale, who is connected to the internet through existing copper lines, can't attach financial reports to email because it is so slow.

The Red Wing Shoe Company's factory in Potosi, which invested in a fiber-optic line, lost internet service for 30 hours last summer and again in May, outages that delayed shipment of more than 10,000 pairs. The company couldn't access inventory or print stickers for shoeboxes, said John Gardner, the plant manager: "It brought us to our knees." Red Wing's other U.S. factories have backup internet providers, a company spokesman said.

Such dependence illustrates how broadband has become a basic service alongside telephones and electricity, said Bonnie Prigge, executive director of the Meramec Regional Planning Commission, which aids economic development in eight rural Missouri counties including Washington. Installation of those utilities in the 20th century, she said, took investment and special effort.

In 1935, when just 10% of rural America had electricity, President Franklin D. Roosevelt pledged to get service to almost every far-flung farm. Two decades later, electrification had reached more than 90% of rural areas, said Richard Hirsh, a history professor at Virginia Tech.

By the end of 1954, a federal program had lent \$2.9 billion, typically to farmers who formed cooperatives to build and operate electricity systems, said Christopher McLean, of the Agriculture Department: "It's one of the most amazing American success stories ever."

Some lawmakers are pressing the Trump administration to include rural broadband in an anticipated \$1 trillion infrastructure package. The White House hasn't said how any such projects might be funded.

"Rural broadband, we need that quite honestly more than we need roads and bridges in many of the counties I represent," U.S. Rep. Austin Scott (R., Ga.) said at a May 17 House committee hearing on the rural economy.

Secretary of Agriculture Sonny Perdue said broadband connectivity should be seen as the "roads, sewers and water" of the modern age. "The good news is, this is square on the radar scope of the president," he said at the hearing.

Mr. Pai, President Donald Trump's FCC chairman, said rural broadband should be included in the expected infrastructure package. He would like to boost subsidies, rewrite regulations to cut red tape and accelerate the FCC's own processes, he said, which have slowed access to rural broadband.

The Obama administration earmarked \$7 billion from the 2009 stimulus package for expanding rural broadband service. Half the money went to a program that the administration estimated would reach 840,000 households and businesses, according to a 2014 review by the Government Accountability Office. There still isn't a tally of how many were connected and at what speeds, government officials said.

Missouri broadband providers received \$261 million of the stimulus money. "The intent was to spread accessibility throughout the state," said Luke Holtschneider, the state's Rural Development Manager. "But that program did not on its own continue to expand in the community like you would hope."

Big River Communications, a St. Louis telecommunications provider, collected about \$20 million in stimulus money-half in grants, half in loans-to connect parts of southeast Missouri, including Washington County.

The company set up a tent at the Dickey Bub farming supply store in Potosi, the Washington County seat, and gave away hot dogs to potential subscribers. Plans started at \$14.99 a month for students, seniors and low-income households. But the project didn't quite pan out, said Krista Snyder, executive director of the Washington County Industrial Development Authority.

Big River built a wireless network to transfer data between company towers and devices installed at homes and businesses. The technology is much slower than fiber-optic systems but better than dial-up service, said Big River President Kevin Cantwell.

The \$14.99 promotion rose to monthly prices that range from \$49.99 on a limited data plan to \$99.99 for unlimited use. The prices are for "high-speed" connections-typically at speeds from 2 Mbps and 7 Mbps, the company said.

Big River estimated it would reach 52,000 homes and businesses with its share of the stimulus money. Nearly five years after its first tower began operation it has 4,000 subscribers in seven counties but is trying for more.

"I just want to know what happened to all the money and grant and things," said Ms. Johnson, the sheep farmer. "We didn't see any benefits."

Mr. Cantwell said parts of Washington County are too thinly populated-and, therefore, too expensive-to reach. "It wasn't a slight to anybody, but we have to pay the government back and be able to provide for our employees," he said. "We've got to make some money."

Ronnie Trent, a 44-year-old electrician in Washington County, said more people would sign up if the service was better. "There are enough people out here who are hardworking people who pay their bills and

who would pay for that," he said, but the speeds are "pretty much terrible." He subscribes, but his wife, a schoolteacher, finds it is too slow to work at home in the evenings.

#### Self-serve systems

Some rural communities have successfully done the job themselves.

In central Missouri, Co-Mo Electric Cooperative, Inc., a not-for-profit, customer-owned co-op formed in 1939 to deliver electricity, started a fiber-optic network that has built connections to 25,000 members in a region more sparsely populated than Washington County. So far, it has 15,000 subscribers, including non-members in neighboring communities..

Co-Mo's members, which include farms and businesses, realized they were falling behind, said John Schuster, board chairman of Co-Mo Connect, the internet service. Residents had to drive to the parking lot of a community college to work online. Students at local schools were cut off from the internet.

The cooperative, after failing to obtain government subsidies, borrowed \$80 million from two private institutions that serve utilities and went door to door asking members to contribute \$100 each. In 1939, the co-op asked each member to contribute \$5 toward electrification.

Rather than only digging trenches for fiber-optic cable, Co-Mo strung cable along its own utility poles and rented space on others. An estimated 70% of Co-Mo internet subscribers have 100 Mbps service that costs \$49.95 a month, Mr. Schuster said.

The co-op's internet service is doing well financially, Mr. Schuster said, but "the definition of making money for me and for a shareholder from AT&T is going to be two different things."

Such local broadband systems are tough to duplicate. Nearly all government subsidies go to major telecommunication providers, a legacy of the FCC's long relationship with phone companies, said Jonathan Chambers, a former FCC strategic planning chief, now a consultant to cooperatives.

Mr. Pai, the agency chairman, said the next phase of FCC subsidies would be open to all types of providers.

While some rural communities have built their own systems, laws in at least 19 states restrict such efforts, generally on the grounds they pose a threat to private companies. A GOP-sponsored bill that set up obstacles to similar broadband efforts stalled this spring in the Missouri legislature.

Every other Thursday, Dr. Stuart Higano, a cardiologist from Missouri Baptist Medical Center in St. Louis, visits the family practice office of Gregory Terpstra in Potosi, Mo., to see patients.

The office has internet service at 10 Mbps from CenturyLink Inc., too slow for Dr. Higano to efficiently connect with the database at his hospital to access patient records or view heart images. "Everything in medicine now is electronic medical records," he said.

Dr. Terpstra, age 69, now has a copper line that connects his office to the fiber-optic cable that runs through town. To get a faster and more reliable connection, CenturyLink said it would have to install 1,000 feet of fiber-optic line to his office and charge the higher monthly fee.

Earlier this year, Dr. Terpstra, dressed in a bow tie and white coat, said he got a quote for fiber-optic service that ranged from \$563 a month for 20 Mbps to \$1,190 a month for 200 Mbps.

"Does that sound like a good deal?" he said.

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# THE WALL STREET JOURNAL.



Oskaloosa Senior High School graduation ceremony in Oskaloosa, Iowa in May. *DANNY WILCOX FRAZIER/VII FOR THE WALL STREET JOURNAL*

[U.S. News](#)

By

Dante Chinni |

Photography by Danny Wilcox Frazier/VII for The Wall Street Journal

June 26, 2017 8:00 a.m. ET

[127 COMMENTS](#)

MAHASKA COUNTY, Iowa—Clow Valve Co. has seven job openings in this rural community where it makes fire hydrants and valves, and management thinks it will soon have more: One-third of the factory's workforce of 400 will be eligible to retire in five years.

But listen to some of the freshly minted graduates from nearby Oskaloosa High School, and Clow's hiring problem becomes clear.

John Hammes is heading to the University of Iowa next fall with no plans to come back. "I'm going to choose the job I want, and that's going to lead me to where I live," he said. Alissa Newendorp has her eyes on the University of Northern Iowa and eventually New York City. Natasha Shipp imagines working as a lobbyist in Des Moines or Washington, D.C.



“How are we going to replace that workforce?,” said Clow’s chief talent strategist, Tiffany Tremmel. “There are a lot of people leaving the community, and they’re not coming back.”



Deryk Bingham works on fire hydrants at Clow Valve Co. in Oskaloosa, Iowa.

As more young people decide to pursue four-year degrees, college towns are siphoning students out of the rural heart of the Farm Belt and sending them, degrees in hand, not back to Oskaloosa but to the nation’s urban centers.

Overwhelmingly, University of Iowa students after graduation either stay near the university or scatter to Chicago, Des Moines or other big cities, according to Emsi, a Moscow, Idaho, advisory firm that analyzes labor markets. In 2014, Mahaska County sent some 170 people to Johnson County, home of the University of Iowa, according to Census data, while Johnson County sent only about 20 people back. As recently as 2000, Mahaska County was sending 73 people to Johnson County and nearly as many, or 71, came back.

The outflow of young adults is one reason the population of Mahaska County is standing still. It has dipped 1% since 2000, while Johnson’s population has grown 32%.

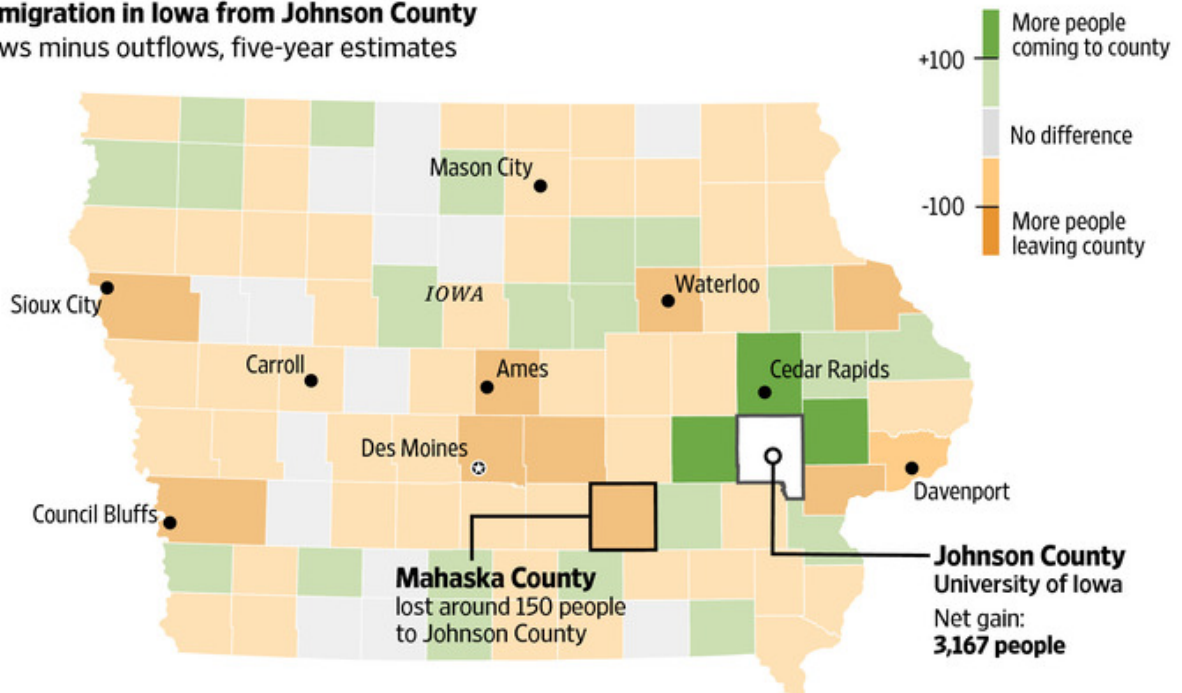


## Student Movement

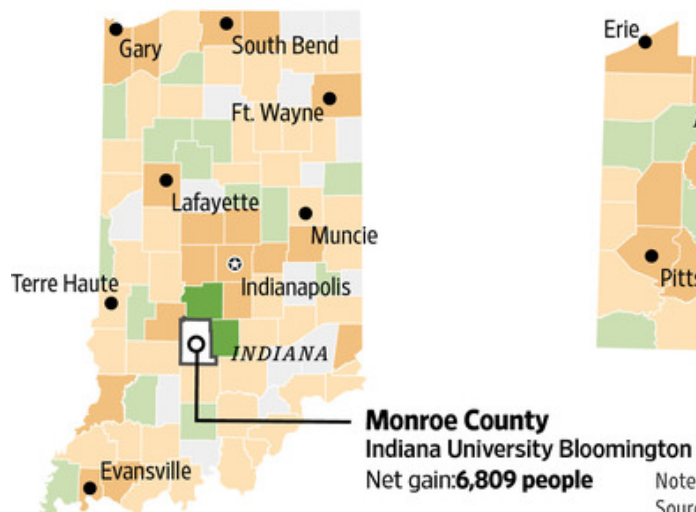
Big state universities play an important role in the population outflow from many rural communities, as more young people leave for college than return home.

### Net migration in Iowa from Johnson County

Inflows minus outflows, five-year estimates



### Net migration in Indiana from Monroe County



### Net migration in Pennsylvania from Centre County



Note: Data based on 2010-2014 American Community Survey.  
Source: U.S. Census Bureau THE WALL STREET JOURNAL.

Other states are struggling with rural population outflow to state-university towns. In 2014, Georgia's rural Pike County sent roughly 116 more people to Clarke County, home of the University of Georgia, than Clarke County sent back. In Pennsylvania, small-town Clarion County sent about 101 more people to Centre County, home of

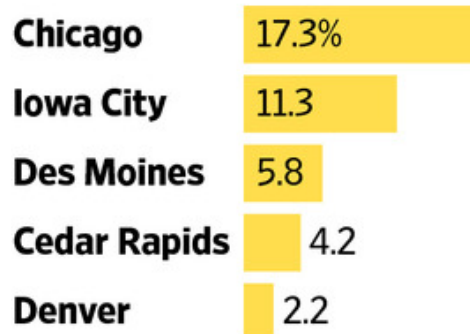
Penn State, than it got back. In Kansas, Barton County sent some 46 more people to Douglas County, home of the University of Kansas, than it got back.

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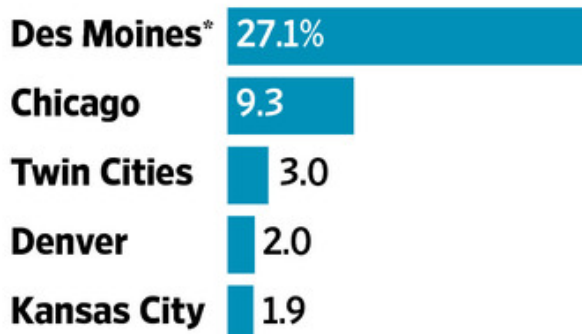
## Moving On

Rural youth who go away to college increasingly relocate to an urban area after graduation.

### Top cities for University of Iowa grads (33% stay in state)



### Top cities for Drake University alums (38% stay in state)



\*Including West Des Moines

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Source: Emsi

Many young people in rural communities now see college not so much as a door to opportunity as a ticket out of Nowheresville. The result is a redistribution of educated graduates to urban areas, which is helping to widen the divide in educational attainment between urban and rural areas.

Cargill's plant in Eddyville, which processes 8 million bushels of corn a month into corn oil, citric acid, cattle feed and other products, is more dependent than ever on college graduates to run its increasingly high-tech operations. Craig Ambrose, a facilities manager there, said he has jobs to offer, some requiring college degrees: 47% of the plant's 500 employees have a bachelor's degree, and an additional 21% have a two-year associate's degree. He is struggling to find college-graduate candidates for two senior electrical engineer positions.







Cargill's Eddyville plant. Julie Vavroch has worked as a chemist for 27 years at Cargill. Jason Kincel loads high-fructose corn syrup into a rail car.

“When you are trying to attract high-school and college grads, they want to be close to entertainment, to night life,” he said. “When you look at Eddyville on a map, it’s not so easy to draw them in.” Mr. Ambrose says he has seen the phenomenon with his own children, including a son now at the University of Iowa.

His son’s plans after graduation? “He’s not completely sure,” Mr. Ambrose said with a laugh. “But I can tell you it’s not southern Iowa.”

At Musco Lighting, which builds lighting systems for businesses and sports facilities, Shelly Herr, human resources manager, says the Oskaloosa company keeps an eye on local high-school students who show promise in engineering and establishes contact with them early, in some cases before graduation. The company also forms relationships with engineering professors at Iowa State University in an attempt to find students interested in Mahaska County’s rural lifestyle.

“If there is an Iowa State engineering student who wants to stay in Iowa, we’re going to start talking to that kid as a freshman,” Ms. Herr said.







Downtown Oskaloosa in May. Patrons outside Smokey Row Coffee in downtown Oskaloosa. Shannon Johnson has a picnic with her sons, Caden, Colin and Jaxson, at the town square in Oskaloosa. Her husband, Nathan Johnson works for Musco Lighting.

Some students talk about coming back to raise a family—if they can find a job in their chosen field. And not everyone is leaving. Oskaloosa High grad Josh Van Donselaar plans to take a part-time job at Agriland FS, an agriculture-supply company in the area, while working on the family farm with an eye toward taking it over someday. “I’ve always wanted to stay home from college,” he said. “I really don’t like school that much. I came to the realization one day that there is room on the farm for me, so I decided to stay home.”

But in bypassing higher education, Mr. Van Donselaar is the exception among his fellow graduates.

Mark Willett, general manager at the Clow Valve plant, grew up about an hour north of Oskaloosa in tiny Victor, Iowa. At his father’s urging, he went to Simpson College, a small liberal-arts school near Des Moines, the first in his family to earn a four-year degree. “He said he wasn’t interested in me staying there and farming,” Mr. Willett said. “I didn’t want to go, but he wanted me to go out and make something of myself.”

Created with Highcharts 5.0.10A Matter of DegreeU.S. college-education rates have climbed by 15 percentage points since 2000, comparedwith 7 percentage points for

rural areas. Percentage of adults with a bachelor's degree or higher: THE WALL STREET JOURNAL Source: U.S. Census Bureau

Created with Highcharts 5.0.10% Rural Urban/Suburban U.S. average 1980 1990 2000 2006-10 2011-15 101520253035

After years of traveling the country, working at jobs from plant to plant, Mr. Willett worked his way back to rural Iowa, near where he started. He says he sees that path as less likely for the current generation: His 11-year-old son is already telling him he wants to go the University of Southern California.

Mr. Willett says children are more connected to the broader world than they used to be, with a better understanding and a hunger for the world outside their immediate experience: He recalls it wasn't until he got to college that he even saw cable television; now, school children have the world brought to small screens they keep in their pockets.

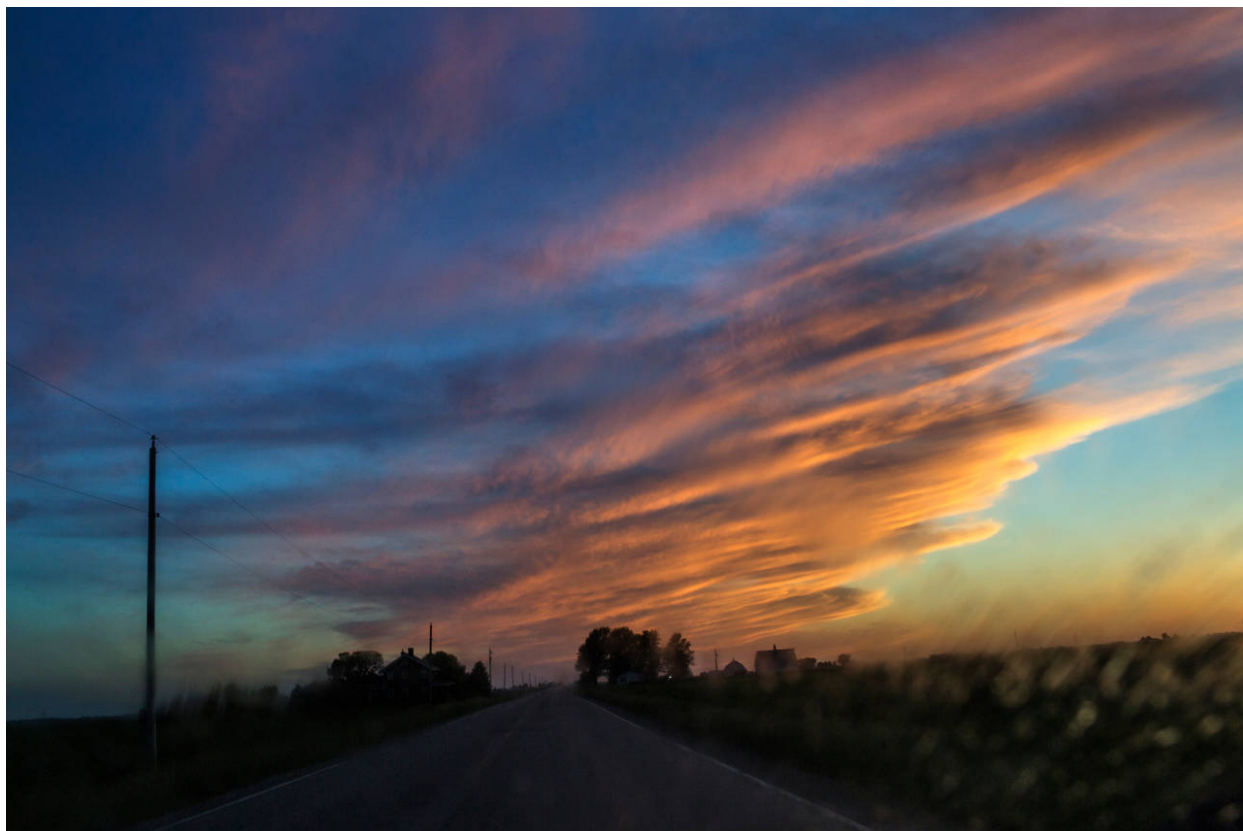
Whatever the pull, most of Oskaloosa High School's recent grads see their futures somewhere else.

"We have, like, five restaurants in town. Every time you go out, it's like a reunion," said 2017 grad John Hirl, who is heading to Drake University in the fall because he wants to live in Des Moines. "It's all just very predictable."



Brett Mowrey and his stepfather, Keith Johnson, after mowing hay on their farm east of Oskaloosa.





Sunset near Oskaloosa, Iowa.

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